

PUBLIC DISCLOSURE

August 17, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Salem Five Cents Saving Bank

210 ESSEX STREET
SALEM, MA 01970

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Salem Five Cents Savings Bank** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **August 17, 2001**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

The bank's Community Reinvestment Act (CRA) performance is assigned a rating of "Satisfactory." An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Performance within the lending, investment, and service tests reflects positively on the bank's commitment to Community Reinvestment and assessment area needs.

Overall, lending performance is rated Satisfactory. Lending activity reflects an adequate responsiveness to assessment area credit needs. The geographic distribution of the bank's HMDA and Small Business loans demonstrated a good penetration of census tracts of different income levels and compared favorably to other lenders in the assessment area. The bank's distribution of mortgage loans among borrowers of different income levels was good considering the demographics of the assessment area and the performance of other HMDA-reporting lenders in the area. In regards to small business lending, the bank granted 59.8 percent of its loans for amounts of \$100,000 or less and 69.6 percent to businesses with annual revenues of less than \$1 million. The bank makes an adequate level of community development loans and also makes extensive use of flexible lending practices in serving the credit needs of the assessment area

The bank's investment performance is rated Satisfactory. Investment activity reflects a good level of qualified equity investments and grants and exhibits a good responsiveness to credit and community development needs.

The bank's service performance is also rated Satisfactory. Systems for delivering retail-banking services are accessible to geographies and individuals of different income levels in the bank's assessment area. In addition, the bank's directors, officers, and employees provide an adequate level of financial services to community organizations.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

The following table indicates the performance level of **Salem Five Cents Savings Bank, Salem, Massachusetts**, with respect to the lending, investment, and service tests.

PERFORMANCE TESTS Salem Five Cents Savings Bank			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Satisfactory	X	X	X
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighted more heavily than the Service and Investment Tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Salem Five Cents Savings Bank is a \$1.2 billion mutually owned savings bank with its main office headquartered at 210 Essex Street in Salem, Massachusetts. The bank also maintains ten additional branches located in Salem (2), Danvers (2), Hamilton, Peabody, Swampscott, Saugus, Lynn and Boston. The Boston and Lynn branches were opened since the last examination. With the exception of the Boston branch, all other branch locations are traditional retail branch operations. Additionally, the bank operates a wholly owned subsidiary, Salem Five Mortgage Corporation, that originates loans from nine loan production offices located in Massachusetts, Rhode Island and Maine, as well as from the branch locations.

The Boston branch, which opened in October 2000, is the physical location for the bank's internet-banking operation called **directbanking.com**. The branch features high-tech banking services such as "Web Banker" internet access machines as well as "Video Banker" which allows for video conferencing with bank customer service representatives. The branch was designed to accommodate its on-line banking customers. Much of the deposit base of the on-line division of the bank is outside the City of Boston. Approximately 73 percent of the number of the deposits and 75 percent of the dollar amount of accounts are from within Massachusetts, while 27 percent of the number and 25 percent of the dollar amount are from outside the state. Of the account relationships developed, only 13 percent of the number and 10 percent of the dollar amount are from within the City of Boston. The vast majority of the account relationships from Boston were developed prior to the opening of the branch. Much of the branch activity is with existing and new customers who work in the City of Boston but live in the outlying suburbs.

The bank currently offers a variety of residential, consumer and commercial credit products. These products include, but are not limited to the following: fixed and variable rate residential mortgage loans, construction loans, commercial loans, educational loans, home equity loans, secured and unsecured installment loans, and automobile loans. The bank also offers numerous deposit services for consumers and businesses.

The primary business focus of the institution is the origination and purchase of residential mortgages. Residential 1-4 family home purchase and refinance mortgage originations are handled through Salem Five's wholly owned subsidiary, Salem Five Mortgage Corporation, while the bank originates all other types of loans. On a consolidated basis, the bank's loan portfolio represents 55.2 percent of total assets, with one to four-family residential properties securing 69.5 percent of the bank's gross loan portfolio.

Refer to the following table for the distribution of the bank's loan portfolio.

LOAN TYPE	AMOUNT (000s)	PERCENT
One to Four-Family Residential Mortgages	455,897	61.1
Home Equity Lines of Credit	62,337	8.4
Nonfarm Nonresidential	135,992	18.2
Commercial and Industrial	49,476	6.6
Construction and Land Development	28,199	3.8
Consumer	13,885	1.9
Others	17	0.0
TOTAL GROSS LOANS	745,803	100.0

Source: June 30, 2001, Consolidated Report of Condition.

The Federal Deposit Insurance Corporation conducted a CRA Examination as of October 10, 2000, and rated the institution "Satisfactory." The Division of Banks' last CRA Examination was conducted as of August 2, 1999, and also resulted in a rating of "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

Demographic and Economic Data

Salem Five Cents Savings Bank has defined its current assessment area as the following cities and towns: Beverly, Boxford, Danvers, Essex, Gloucester, Hamilton, Ipswich, Lynn, Lynnfield, Manchester, Malden, Marblehead, Melrose, Middleton, Nahant, Peabody, Revere, Rockport, Rowley, Salem, Saugus, Swampscott, Topsfield, Wakefield, Wenham and Boston. With the exception of Boxford, the assessment area's cities and towns are located in the Boston MA-NH Metropolitan Statistical Area (MSA). Boxford is located in the Lawrence MA-NH MSA. However, all cities and towns in the assessment area are located in the Boston Consolidated Metropolitan Statistical Area (CMSA). The assessment area does not arbitrarily exclude low- or moderate-income areas. It is made up of whole geographies, and does not extend beyond state boundaries, therefore, meeting the requirements of the CRA regulation.

The bank expanded its assessment area, in October 2000, to include the City of Boston. The inclusion of the City of Boston corresponded with the opening of the **directbanking.com** branch located in the financial district section of the city. The addition of Boston to the assessment area expanded the number of cities and towns to 26 from 25, however the number of census tracts increased more than two-and-a-half times the previous assessment area, from 110 census tracts to 279.

The demographic makeup of the assessment area changed substantially with the inclusion of Boston. Approximately 45 percent of the households in the assessment area are of low- or moderate income, whereas the previous 25-community assessment area had approximately 25 percent of its households classified as low and moderate income.

Approximately 41.6 percent of the households are considered middle-income while 13.4 percent are considered upper-income. According to 1990 census data, the assessment area has total population of 1,116,446.

The income level of census tracts is identified according to the median income level within the tract and classified as upper, middle, moderate or low-income. Of the 279 census tracts, the majority (149 census tracts) are of low and moderate income, representing 53.4 percent of all tracts. There are 94 middle-income tracts representing 33.7 percent and 29 upper-income tracts representing 10.4 percent. It should be noted that 7 of the census tracts have no income designation (NA). These census tracts are located in Danvers (1), Gloucester (1), and Boston (5). None of these NA tracts contain any housing units and as such are not considered in this evaluation. Of the 169 census tracts that comprise the City of Boston, 114 are low and moderate-income tracts.

Please refer to the following table for a breakdown of census tracts by income categories.

Selected Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Percentage						Median Home Value (\$)
	Census Tracts	Households	Housing Units	Owner-Occupied	Rental Units	Vacant Units	
Low	15.4	10.0	10.5	2.7	16.0	16.5	107,001
Moderate	38.0	35.1	35.4	25.2	43.1	38.2	165,035
Middle	33.7	41.5	40.8	53.8	31.6	32.4	180,068
Upper	10.4	13.4	13.3	18.3	9.3	12.9	318,834
N/A	2.5	0.0	0.0	0.0	0.0	0.0	NA
Total or Median	100.0	100.0	100.0	100.0	100.0	100.0	192,735

Source: 1990 U.S. Census

Community Contacts

With approximately 45 percent of the households in the assessment area in the low and moderate-income category, there is a strong need in the community to create more affordable housing. The escalating housing values in the area have made home ownership opportunities limited for those individuals and families of low and moderate-income. This need for affordable housing appears to be a common theme throughout the assessment area and it is supported by the information provided by the community contacts. In addition, there are a substantial number of small businesses that have helped to create and sustain numerous job opportunities within the assessment area. The need for increased small business lending was also stressed, as small businesses are essential in supporting the local economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

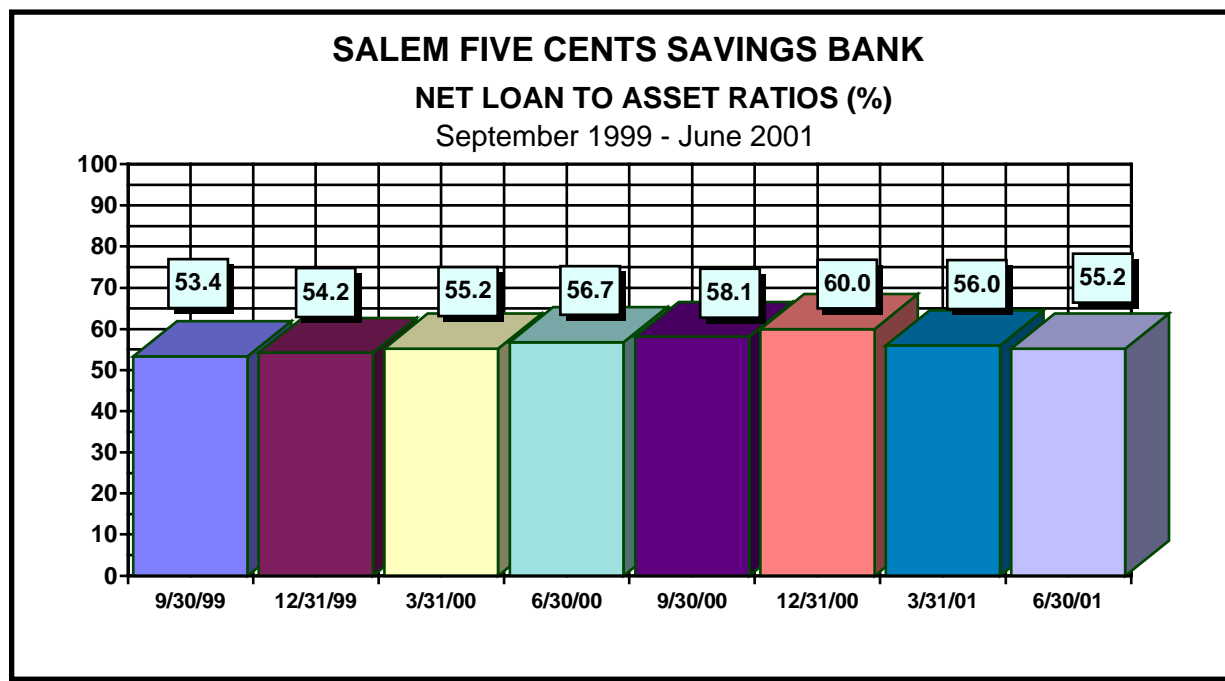
The institution's Lending Test performance was rated an overall "satisfactory." This conclusion is based upon analyses of loan originations and other CRA related activities under the following seven performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

Scope of Evaluation

A review of Salem Five Cents Savings Bank's HMDA-reportable loans and small business loans was conducted during this examination. These lending products were reviewed for the period 2000 and year-to-date June 30, 2001. This time period was used throughout this report for both HMDA and small business lending, unless otherwise noted.

I. Lending Activity

As of June 30, 2001 Salem Five Cents Savings Bank had total assets of \$1,265,608,000 as reported in the quarterly FFIEC Call Report. Of these assets, gross loans represented \$703,537,000 or 55.6 percent of assets. Over the last eight quarters, the bank's assets have increased by \$161,851,000 or 14.7 percent. The following table details the net loan to asset ratios for the period under review.



Source: FFIEC Call Reports

During the period from September 30, 1999 to June 30, 2001, the bank's dollar amount of net loans has increased by 18.4 percent, which is slightly higher than the overall percentage of asset growth, resulting in a slight increase in the bank's loan to asset ratio. The net loan to asset ratio has remained fairly steady over the time period with a range of 53.4 percent to 60.0 percent for an average of 56.1 percent. The average net loan to asset ratio, as of the previous state examination, was 56.6 percent.

The following table compares Salem Five Cents Savings Bank's net loan to asset ratio with that of other area institutions.

INSTITUTION	NET LOAN TO ASSET RATIO June 30, 2001
Salem Five Cents Savings Bank	55.2%
Warren Five Cents Savings Bank	78.8%
Century Bank & Trust Company	41.2%

Further analysis was conducted on the bank's net loan to deposit ratio for the eight quarters under review. During this time, deposit growth outpaced loan growth with an increase of 20.7 percent and 18.4 percent, respectively. The net loan to deposit ratio has fluctuated over the time period from a low of 73.0 percent on June 30, 2001 to a high of 83.1 percent on December 31, 2000. The average net loan to deposit ratio currently stands at 78.2 percent.

From January 1, 2000 to September 1, 2001 the bank sold 2,583 loans totaling approximately \$375,055,740. The sale of these loans has had an impact on the above ratios, however through the sale of loans, the bank has been able to generate necessary funds to continue to meet strong loan demand during the covered time period. As previously stated, the bank is primarily a residential lending institution with 69.5 percent of its gross loans centered in one to four family residential real estate. There have not been any significant changes in the composition of the bank's loan portfolio since the previous examination.

Salem Five Cents Savings Bank's Year 2000 and year-to-date 2001 Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's assessment area. The bank's assessment area is significantly smaller than the residential lending area of the institution. As previously mentioned, most of the residential real estate lending activity is generated through the bank's subsidiary, Salem Five Mortgage Company. In addition to the loans generated through the bank's branch network, its mortgage company operates out of nine loan production offices located in Massachusetts, Rhode Island and Maine. The bank's assessment area is concentrated around its branch network as opposed to its mortgage company's lending area.

During this period, the bank originated 326 HMDA-reportable loans totaling approximately \$48,770,000. Of this amount, 19 loans, or 5.8 percent of the number, totaling \$8,984,000 or 18.4 percent of the dollar amount were originated in the bank's assessment area. Of

the mortgages originated by Salem Five Cents Savings Bank in the assessment area, 89.4 percent were for multi-family units, 5.3 percent were for refinances and 5.3 percent were for conventional home purchases.

Refer to the following table for additional information regarding the bank's HMDA-reportable lending, by both number and dollar amount.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	17	5.3	8,374	17.8	303	94.7	38,759	82.2
2001-YTD	2	33.3	610	37.3	4	66.7	1,027	62.7
Total	19	5.8	8,984	18.4	307	94.2	39,786	81.6

Source: HMDA LAR, CRA Wiz

As shown above, the number of HMDA loans reported by the bank decreased significantly from 2000 to year-to-date 2001. This decrease is in keeping with the performance of the bank over the past several years. Management has been originating residential one-to-four family HMDA reportable loans through Salem Five Mortgage Company, thereby effecting a significant decrease in HMDA reportable lending activity by the bank. As such, actual performance levels can best be evaluated by looking at the activity level of the affiliate.

Salem Five Mortgage Corporation originated 1,476 residential mortgage loans totaling \$224,394,000 during 2000 and 1,397 during year-to-date 2001, totaling \$232,706,000. Of the loans originated by Salem Five Mortgage Corporation, 550 or 19.1 percent totaling \$102,779,000 or 22.5 percent of the dollar amount were originated within the bank's assessment area. Of the mortgages originated in the assessment area, 57.6 percent were for refinance, 40.6 percent were for conventional home purchases and 1.8 percent were government home purchases.

The most recent aggregate data available is for calendar year 1999. Since the bank changed its assessment area during the fourth quarter of 2000, aggregate data comparisons are based upon the previous 25-community assessment area. Aggregate data includes other HMDA-reporters, namely bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. During 1999, the bank and its mortgage company combined had 385 loans within the assessment area. This ranked them 14th overall in market share. It should be noted for informational purposes, that by using the bank's current assessment area, which includes the City of Boston, the bank would have dropped from 14th overall in market share to 27th in 1999.

Small Business Lending

Salem Five Cents Savings Bank's 2000 and year-to-date 2001 Small Business Loans Registers (SBLRs) were also reviewed to determine the amount of credit extended within the assessment area. During this time period, the bank originated 335 small business loans totaling approximately \$62,430,000. Of those loans, 204 loans totaling \$33,270,000 were originated to businesses within the bank's assessment area, representing 60.9 percent by number and 53.3 percent by dollar amount.

Refer to the following table for additional information regarding the bank's small business lending, by both number and dollar amount.

Distribution of Small Business Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	132	62.3	22,208	55.2	80	37.7	18,030	44.8
2001-YTD	72	58.5	11,062	49.9	51	41.5	11,130	50.1
Total	204	60.9	33,270	53.3	131	39.1	29,160	46.7

Source: CRA Data Collection

Salem Five is considered to be doing an adequate job of lending within its assessment area. Lending activity reflects an adequate level of response to the credit needs of the assessment area. The institution has originated a good volume of small business loans within the assessment area and has maintained an adequate market share of home mortgage originations.

II. Geographic Distribution (Census Tract Income Level)

HMDA-Reportable Lending

The HMDA-reportable loans located within the bank's assessment area were further analyzed to determine their location by census tract income level.

The following table provides a breakdown, by number, of the bank and its mortgage company's HMDA-reportable loans within its assessment area according to census tract income level. The table also shows the loans in comparison to the percentage total of owner-occupied housing units in each of the census tract income categories.

Distribution of HMDA Loans by Income Category of Census Tract							
Census Tract Income Level	% Total Owner- Occupied Housing Units	2000		2001-YTD		Total	
		#	%	#	%	#	%
Low	2.7%	9	3.6	2	0.6	11	1.9
Moderate	25.2%	53	20.9	59	18.7	112	19.7
Middle	53.8%	140	55.3	189	59.8	329	57.8
Upper	18.3%	51	20.2	66	20.9	117	20.6
Total	100.0	253	100.0	316	100.0	569	100.0

Source: U.S. Census, HMDA LAR, and HMDA Aggregate Data

As indicated in the above table, 21.6 percent of the bank's total loans for the period were within low and moderate-income census tracts, which is less than the percent of owner-occupied housing units in those areas. By dollar amount the bank originated 20.4 percent of its HMDA-reportable loans within low and moderate-income census tracts. As previously mentioned the bank's assessment area was expanded to include the City of Boston. This expansion increased the number of low and moderate-income census tracts in an area where the bank has not had a branch operation or loan origination center.

The most recent aggregate data for 1999 reveals that the bank and its mortgage company originated 18.8 percent of their loans in low and moderate-income census tracts, outperforming the aggregate, which originated 14.6 percent of their loans in low and moderate-income census tracts that year. The activity of the bank and its mortgage company ranked them 22nd for lending in low and moderate-income census tracts.

Small Business Lending

Salem Five Cents Savings Bank's small business loans were also analyzed to determine the distribution by census tract income level within its assessment area.

The following table depicts the bank's distribution by number as well as a comparison of its performance with the aggregate.

Distribution of Small Business Loans by Income Category of the Census Tract							
Census Tract Income Level	2000 Aggregate Lending Data (%of #)	2000		2001-YTD		Total	
		#	%	#	%	#	%
Low	12.8	6	4.5	1	1.4	7	3.4
Moderate	24.9	29	22.0	8	11.1	37	18.2
Middle	40.2	74	56.1	47	65.3	121	59.3
Upper	22.1	23	17.4	16	22.2	39	19.1
Total	100.0	132	100.0	72	100.0	204	100.0

Source: CRA data collection and CRA Aggregate Lending Data

As shown above, the bank originated 21.6 percent of its small business loans in low and moderate-income census tracts. The loans in low and moderate-income census tracts represented 15.6 percent of the total dollar volume of small business loans originated by the bank in the assessment area. The majority of the loans were extended to businesses in middle-income census tracts.

The distribution of small business loans by census tract income level was also compared to that of the aggregate. The aggregate includes all small business loans within the assessment area made by CRA data reporting institutions including Salem Five Cents Savings Bank. As shown above, in 2000, the bank granted 26.5 percent of its small business loans in low and moderate-income tracts, which was below the aggregate that originated 37.7 percent in low and moderate geographies.

Performance levels relating to originations in low and moderate-income census tracts are somewhat mitigated by the fact that Salem Five just recently opened its **directbanking.com** branch in the City of Boston. Prior to this opening, the bank had no physical presence in the city. The addition of the City of Boston to the assessment area raised the number of low and moderate-income census tracts from 35 to 149. While these factors should be considered, it is also important to recognize the significant decrease in originations in these census tracts, by the bank, for year-to-date 2001.

The previous performance evaluation dated October 10, 2000 indicated the institution performed more favorably in comparison to the aggregate. Performance levels relating to originations in low and moderate-income census tracts revealed that the bank originated 18 percent of its small business loans in those tracts as compared to 21 percent for the aggregate. While still below the aggregate, origination levels were much closer and compared more favorably. These comparisons were based upon the previous assessment area.

Overall, the bank has displayed an adequate geographic distribution of home mortgage and small business lending within its assessment area.

III. Borrower Characteristics

HMDA-Reportable Lending

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income. The borrowers' reported incomes were compared to the median family incomes for the Lawrence MA – NH and Boston MA – NH Metropolitan Statistical Areas (MSA), depending on the location of the property. These income figures are based on estimated Department of Housing and Urban Development (HUD) information. Refer to the following table for the estimated 2000 and 2001 HUD information.

MSA	2000	2001
Lawrence MA – NH	\$60,800	\$64,100
Boston MA – NH	\$65,500	\$70,000

Income levels less than 50 percent of the median family household income level for the Metropolitan Statistical Area (MSA) are considered low-income while levels from 50 percent to less than 80 percent are considered moderate-income. Levels of income 80 to 120 percent are considered middle-income while income levels above this range are considered upper-income.

The number of HMDA-reportable loans to low, moderate, middle and upper-income borrowers in comparison to the percentage of households in the assessment area in each respective income group is shown below.

Distribution of HMDA Loans by Borrower Income							
Median Family Income Level	% Total Households	2000		2001-YTD		Total	
		#	%	#	%	#	%
Low	31.3	15	5.9	11	3.5	26	4.6
Moderate	17.6	43	17.0	48	15.2	91	16.0
Middle	19.2	68	26.9	84	26.6	152	26.7
Upper	31.9	111	43.9	170	53.8	281	49.4
NA	0.0	16	6.3	3	0.9	19	3.3
Total	100.0	253	100.0	316	100.0	569	100.0

Source: U.S. Census, HMDA LAR, and HMDA Aggregate Data

In the period covered, the bank extended a total of 117 loans to low and moderate-income borrowers representing 20.6 percent of total loans originated in the assessment area. These loans represent 12.0 percent of the dollar amount. At first glance it would appear that the ratios associated with low and moderate-income applicants appear unfavorable, as 48.9 percent of total households in the assessment area are low and moderate income. However, it is important to note that 31.3 percent of all households are low-income and 13.3 percent have income below the poverty level. The extremely low income of these households makes it difficult for such individuals to qualify for a mortgage loan. The situation is further exacerbated by the escalating home values in the area that makes affordability extremely limited for these individuals. Considering these factors, it would appear that the level of lending to low and moderate-income borrowers is reasonable.

Aggregate data for 1999 revealed that both the bank and its mortgage company originated 23.6 percent of their loans to low and moderate-income applicants. This percentage is slightly above the aggregate with 21.8 percent. The bank was ranked 16th in lending to low and moderate-income applicants.

The distribution of HMDA-reportable lending by borrower income demonstrates willingness on the bank's part to lend to borrowers of all income levels, including those of low and moderate-income.

Small Business Lending

The small business loans originated within the bank's assessment area during this period were analyzed to determine the distribution among businesses of various sizes. The vast majority of the loans originated during this period were granted to small businesses, whose annual revenues are \$1 million or less. The following table depicts the distribution of business loans within the bank's assessment area by revenues of the business.

Distribution of Small Business Loans by Gross Annual Revenues of Business							
Gross Annual Revenues (000)	2000 Aggregate Lending Data (% of #)	2000		2001-YTD		Total	
		#	%	#	%	#	%
<= \$1,000	35.3	85	64.4	57	79.2	142	69.6
> \$1,000	64.7	47	35.6	15	20.8	62	30.4
Total	100.0	132	100.0	72	100.0	204	100.0

Source: CRA Data Collection

As shown in the above tables, the majority of these loans (69.6 percent by number) were extended to small businesses with gross annual revenues of \$1 million or less. By dollar amount, 70.5 percent of the loans went to businesses that had annual revenues less than or equal to \$1 million and 29.5 percent went to businesses that had annual revenues greater than \$1 million.

The distribution of small business lending by gross annual revenues of the business was also compared to that of the aggregate. In 2000, the bank originated 64.4 percent of its small business loans to businesses with gross annual revenues under \$1 million compared to the aggregate with 35.3 percent.

The small business loans originated within the bank's assessment area during the time period were further analyzed to determine the typical loan amount at origination. The majority of small business loans originated in the bank's assessment area during this time period had original loan amounts of \$100,000 or less. The following table depicts the number distribution of business loans within the bank's assessment area by loan amount at origination and also compares the bank's performance to the aggregate.

Distribution of Small Business Loans by Loan Size							
Loan Size (000s)	2000 Aggregate Lending Data (% of #)	2000		2001-YTD		Total	
		#	%	#	%	#	%
< \$100	94.2	77	58.3	45	62.5	122	59.8
\$100 - \$250	2.8	27	20.5	14	19.4	41	20.1
> \$250 - \$1,000	3.0	28	21.2	13	18.1	41	20.1
Total	100.0	132	100.0	72	100.0	204	100.0

Source: CRA Data Collection

According to this analysis 59.8 percent of the number of the small business loans had original amounts of \$100,000 or less. By dollar amount, 16.0 percent of the loans had amounts less than or equal to \$100,000 and 23.1 percent had loan amounts between \$100,000 and \$250,000. The remaining 60.9 percent had loan amounts greater than \$250,000. In 2000, 58.3 percent of the bank's small business loans were under \$100,000, compared to the aggregate with 94.2 percent.

IV. Community Development Lending

Salem Five Cents Savings has initiated a number of community development loans that have had a positive impact on its assessment area. During the period examined the bank originated eight community development loans totaling \$17,967,500. In 2000, the bank originated five qualified community development loans totaling \$16,417,500. For year-to-date 2001 the bank has originated three loans totaling \$1,550,000. Through its community development lending efforts, numerous residential units of affordable housing have been financed. Additionally, through its investment in the Boston Community Capital Loan Fund, the bank is allowed its pro-rata share of lending activity generated through the fund. The bank's pro-rata share for the period covered by this examination is \$344,636.

The bank's lending activities supported the efforts of several area non-profit organizations by financing their expansion and working capital needs. A loan was made to fund the acquisition of a child daycare facility for an area non-profit that serves the childcare needs of low and moderate-income families. Additionally, Salem Five has assisted in the retention and expansion of jobs within its assessment area by financing the expansion of current businesses located in the North Shore area.

Below are examples of community development loans and commitments made by the institution.

Boston Community Capital (BCC) - BCC serves a broad area, including the bank's assessment area, providing affordable housing initiatives in low-income residential areas, funding for community development projects and job training programs. Projects supported by the Boston Community Loan Fund include residential recovery programs for women and their children, first time homeownerships, low-income rentals, mixed-use residential and commercial development and job generating industrial buildings.

In December 1998, the bank made an investment of \$100,000 in the Boston Community Loan Fund. In 2000, The Boston Community Loan Fund committed approximately \$12 million, which enabled the creation of 276 new units of affordable housing. As of June 30, 2001, the fund had made 14 loans totaling \$6.4 million, which assisted in developing or preserving 151 affordable housing units. The bank's pro rata allocation as of December 2000 was \$274,132.00 that represented 2.3% of the total fund. The pro rata allocation as of Y-T-D June 30, 2001 was \$70,504.

Peabody Essex Museum - In September 2000, the bank committed to provide bridge financing for this area institution in support of its \$57 million expansion plan. The museum is one of the premier tourist attractions in the City of Salem and the North Shore region. The museum required financing to cover construction/renovation financing for interim period of approximately four years.

Affordable Housing and Edison Hotel (Lynn) - In January 2000 the bank made a commitment to provide financing (refinancing) for 303 units of housing located in the City of Lynn. All rents are at or below market rates with a number of units subsidized through various state and federal affordable housing sources. Additionally, proceeds from the refinancing were utilized to purchase and rehabilitate the former Hotel Edison located in downtown Lynn from the City of Lynn. The former hotel will be renovated into retail and office space. The developer is working in conjunction with state and local agencies to rehabilitate this facility in hopes of stimulating additional small business growth in the area.

The bank's level of community development lending reflects a good effort in financing affordable housing, and meeting the economic development needs of its assessment area.

V. Innovative or Flexible Lending Practices

Salem Five Cents Savings Bank continues to design and participate in a variety of innovative and flexible loan programs aimed at meeting the credit needs of low and moderate-income homebuyers and small businesses. These programs are detailed below.

Fresh Rate Program - This program, offered by MHFA, allows up to 4 percent of the loan amount for downpayment and closing cost assistance for the purchase of a 1-4 family home. Salem Five Cents Savings Bank was one of the first three banks in Massachusetts to participate in this loan program.

Massachusetts Housing Finance Agency - The bank's loan offerings, through the MHFA, allow them to offer flexible underwriting and below-market interest rates for borrowers who meet MHFA's income limits for low- and moderate-income applicants.

Community Homebuyer - This program, offered through FNMA, provides enhanced underwriting guidelines for homebuyers who meet HUD's criteria for low and moderate-income borrowers.

Veterans Administration (VA) / Fair Housing Association (FHA) - The bank participates in these programs which offer flexible income ratios and high loan-to-value ratios.

FLEX Program - The bank offers two internal flexible credit products designed to assist customers that would not qualify under secondary market guidelines.

Massachusetts Capital Access Program (MASSCAP) - This program is administered by the Massachusetts Business Development Corporation as an agent for the Massachusetts Office of Business Development. The purpose of the program is to assist the lender in making loans to small businesses that might otherwise not qualify according to the lender's underwriting guidelines.

The success of the various lending programs is summarized in the following table.

Flexible Lending Programs				
Loan Program	2000		2001 - YTD	
	#	\$(000)	#	\$(000)
Fresh Rate Program	20	2,576	13	2,025
Massachusetts Housing Finance Agency	95	10,299	80	10,332
Community Homebuyer	3	515	3	529
FHA	104	14,979	49	8,039
VA	25	3,324	9	1,288
FLEX	143	28,849	97	319,587
FNMA 97	3	438	2	340
Portfolio	15	5,948	160	54,081
Maine State Housing	13	1,043	6	557
FNMA Multifamily	11	2,045	6	1,151
New Hampshire Housing	6	678	2	197
Rhode Island Housing	16	1,268	0	0
MASSCAP	2	95	1	25

Source: Bank Records

VI. Fair Lending Policies and Practices

Salem Five Cents Savings Bank's fair lending information was reviewed to determine how it related to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

The bank maintains a fair lending policy aimed at preventing illegal discrimination. The bank provides employees with training on the Equal Credit Opportunity Act. Salem Five Cents Savings Bank's marketing efforts are conducted primarily through local radio, cable, newspaper and Internet advertisements that reach the entire assessment area. In addition, members of the bank are actively involved in the community which helps them to determine the credit needs of the assessment area.

The bank offers different types of flexible products that are effective in providing credit to those who would not qualify under conventional lending standards. Please refer to Section V. "Innovative or Flexible Lending Practices" under the lending test for a list of flexible products. Additionally, the bank has participated in several educational seminars that are detailed in the service test section of this report.

Salem Five Cents Savings Bank has a second review system in place for all declined loan applications in which the applicants are minority. The bank has internal control procedures that ensure the validity of HMDA data that is collected.

Salem Five Cents Savings Bank refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. The bank has a staff of 282 employees of whom 20 are minorities. In addition, the bank employs numerous individuals who speak different foreign languages.

Minority Application Flow

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. In 2000 and 2001 year-to-date the bank received 687 residential loan applications from within its assessment area. During this period, 43 applications, or 6.3 percent, were received from minorities. Refer to the following table for further details.

MINORITY APPLICATION FLOW						
RACE	BANK 2000		BANK 2001-YTD		BANK TOTAL	
	#	%	#	%	#	%
<i>Native American</i>	0	0.0	0	0.0	0	0.0
<i>Asian</i>	2	0.6	4	1.1	6	0.9
<i>Black</i>	7	2.2	3	0.8	10	1.5
<i>Hispanic</i>	15	4.6	7	2.0	22	3.2
<i>Other</i>	4	1.2	1	0.3	5	0.7
Total Minority	28	8.6	15	4.2	43	6.3
<i>White</i>	279	85.6	340	94.2	619	90.1
<i>NA</i>	19	5.8	6	1.6	25	3.6
Total	326	100.0	361	100.0	687	100.0

Source: PCI Services, Inc., CRA Wiz Software.

The bank's minority application flow for this period was compared with the racial make-up of the assessment area and the 1999 aggregate data for all HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's minority application flow. According to 1990 Census

Data, the bank's assessment area contained a total population of 1,116,446 individuals of which 24.4 percent are minorities. In 1999, the bank received 7.3 percent of its applications from minorities compared to the aggregate with 14.5 percent.

Comparison of performance levels of the bank for 1999, 2000 and year-to-date 2001 indicates that the bank is fairly consistent in the percentage of minority applications received. It would be reasonable to assume that aggregate performance levels may also remain fairly consistent, which would indicate that the bank's performance level falls below that of the aggregate.

VII. Loss of Affordable Housing

The bank's participation in community development projects and government lending programs, along with its development of credit products with flexible lending criteria, has assisted low and moderate-income individuals to remain in their neighborhoods.

INVESTMENT TEST

The institution's Investment Test performance was rated an overall "Satisfactory." This rating is based upon an evaluation of the bank's record of making qualified investments that benefit the assessment area or a broader statewide or regional area, that includes the bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share or grant that has as its primary purpose community development. The bank's community development investing consists primarily of investments in targeted mortgage-backed securities and charitable giving activities.

A community development purpose includes providing affordable housing for low- or moderate-income individuals or areas; providing community services targeting low- or moderate-income individuals or areas; promoting economic development by financing small businesses; or revitalizing or stabilizing low- or moderate-income geographies. Investment performance is evaluated based on the level, innovativeness or complexity, and degree of responsiveness to community needs.

Investments

Salem Five made approximately \$1,188,800 in qualified investments that benefited the bank's assessment area or a broader statewide or regional area which included the bank's assessment area. Per the regulation, the above figure includes qualified investments made since the previous examination, as well as qualified investments made prior to the previous examination with outstanding balances on the bank's books. The following are examples of some of the bank's qualified investments.

Fannie Mae Mortgage Backed Securities (MBS) - In February 2000 a \$1 million FNMA CRA targeted mortgage-backed security was purchased. A pool of nine loans, eight of which are to low- and moderate-income borrowers, backs this security. All the loans are secured by mortgages originated within the bank's assessment area. The book value as of June 30, 2001 was \$920,430.00.

Boston Bank of Commerce - The bank approved an investment in a CD through Boston Bank of Commerce, a minority-owned bank which has been designated as a Community Development Financial Institution (CDFI) by the U.S. Treasury Department. The U.S. Treasury Department's Bank Enterprise Award program was created to encourage FDIC-insured banks and thrifts to increase their lending and financial services in under-invested communities and to support the activities of CDFIs.

Qualified Grants

Salem Five has made qualified grants for the current examination period totaling approximately \$80,000. This total represents approximately 53.3% of total contributions for the current examination period. Most of the grant funding comes from a foundation created by the bank to finance its charitable giving activities. The foundation was established for the purpose of supporting community, charitable, educational and other benevolent organizations. The foundation was created with \$641,000 in equity investments formerly held in the bank's investment portfolio. Income generated by these investments supports the foundation activities. Additional funding for the foundation comes from an annual golf tournament whereby the proceeds also support the foundation activities. Recipients benefit the community in various ways, including childcare, healthcare, educational and social services. The following are examples of organizations that have received grants and contributions.

The House of Seven Gables Settlement Association - A portion of the site's visitation revenues is used to support the Settlement House which serves over 250 children and their families from Salem and neighboring communities through educational, social, recreational and nutritional programs offered on a sliding fee basis.

Food Pantries - Numerous food pantries throughout the area receive contributions from Salem Five. Some of the food pantry recipients include Haven for Hunger and My Brother's Table.

The Greater Boston Food Bank - The Greater Boston Food Bank is a link between restaurants, hotels, hospitals, caterers and corporate cafeterias seeking to donate surplus food, and non-profit programs feeding those who are hungry.

Lazarus House - Lazarus House Ministries, based in Lawrence, assists the poor, homeless and nearly homeless by providing hot meals, temporary shelter, job training, child care, emergency food, clothing, outreach and advocacy.

Salem Harbor Community Development Corporation - The bank contributed to the administrative support of the Salem Harbor CDC Loan Fund for the year 2001 as well as contributing towards its loan loss reserve fund. The contribution also helped the Salem Harbor Community Development Corporation in applying for matching funds from the Minority Office of Business Development.

Greater Boston Legal Services - The bank contributed to this organization and requested that the funds be directed toward its Housing Unit and its programs for providing legal assistance for homeless and low-income individuals seeking emergency shelter and affordable housing.

Homeowner Options for Massachusetts Elders - The bank contributed to this organization to support its efforts to provide housing services for low-income elders.

Other Investment Activity

The bank opened a branch in Lynn during the current examination period, which is located within a low-income census tract. The bank opted to rehab the complete area, which surrounds the branch by a substantial landscaping and clean-up effort. The area consists of several other small businesses and there was a specific need for landscaping which aided in the revitalization of the immediate area where the branch is located.

The bank's performance under the Investment Test is rated "Satisfactory". Investment activity reflects a good level of qualified equity investments and grants and exhibits responsiveness to credit and community development needs.

SERVICE TEST

The institution's Service Test performance was rated an overall "Satisfactory." This rating is based upon an evaluation of the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

Salem Five Cents Savings Bank's officers and staff at all levels have addressed community credit needs through their involvement in a wide range of community organizations, particularly those targeted to low and moderate income individuals throughout the assessment area. The types of products and services offered to consumers meet the needs of the communities served. The following details the institution's services.

RETAIL BANKING SERVICES

Distribution of Branches

Salem Five Cents Savings Bank is headquartered at 210 Essex Street, Salem, Massachusetts. The bank operates eleven full service branches. The main office is located in a middle-income census tract as are seven other branches. A new branch "**directbanking.com**", which is a bank office with Internet banking access, was established during the current examination period. The **directbanking.com** branch is located in a census tract designated as upper-income. Also, during the current examination period, the bank established a branch in Lynn, which is located within a low-income census tract.

Branch hours are considered convenient and comparable to other institutions, and services of the bank appear sufficient to meet the needs of the assessment area. Branch office hours are 8:30AM to 3:00PM Monday through Wednesday. All branches have extended hours on Thursdays and/or Fridays and are open 9:00AM to 1:00 PM on Saturdays. Additionally, the Swampscott Branch is open on Sundays from 11:00AM - 3:00PM. Five branches offer drive-up service.

Record of Opening and Closing Branches

The bank has developed a formal Branch Office Opening and Closing Policy. Since the prior evaluation, the bank has opened an internet-banking branch in the City of Boston and another branch in the City of Lynn.

Alternative Delivery Systems

The bank maintains a network of 15 proprietary ATMs within the area. Nine of its branches have ATMs. In May 2000, an ATM was established at the Visitors' Center on Rte. I-95 in Salisbury. The bank also has 226 machines under its logo throughout the Massachusetts, through a licensing arrangement with American Express. Many of these machines are located in low or moderate-income neighborhoods. The bank is a member of the SUM Network, providing access for bank customers to hundreds more machines, without additional charges to them.

The bank's "Accessline" telephone call service is a free 24-hour automated tele-banking line for customers. Callers can obtain information on products and services as well as referrals to departments within the bank. Registered depositors are able to find out what checks have cleared, their balances, or transfer funds between accounts. The bank also offers "HomeBanking" which enables non-PC users to access bill payment capability via a touch-tone telephone.

Other Retail Services

The bank offers low cost "Lifeline" products that meet the guidelines established by the Basic Banking for Massachusetts program. "Lifeline" products expand access to bank products and services and encourage those with modest incomes to establish banking relationships. The Lifeline Checking Account has a flat fee of \$3.00 per month and allows up to ten free withdrawals monthly.

The bank offers check cashing services to Transitional Assistance recipients within its banking area and also provides ATM access for Electronic Benefits Transfer (EBT) cards at no charge. This service is available whether recipients are customers or non-customers.

IOLTA Accounts - Attorneys are required to hold all client "trust" funds in such an account according to the rules of the Supreme Judicial Court. Interest earned on these accounts is remitted monthly to the IOLTA Committee and distributed to organizations that provide legal services to the poor. The charitable benefit is maximized by the bank's voluntary waiving of normal service fees on these accounts.

COMMUNITY DEVELOPMENT SERVICES

The CRA regulation defines a community development service as a service whose purpose is primarily community development and is related to the provision of financial services. Through the participation of bank management and its employees the bank is involved in providing support to local community development programs and projects. Through these involvements, the bank's staff lend their technical expertise, experience and judgment to these organizations. Detailed below are Salem Five Cents Savings Bank's qualified community development services.

Involvement in Community Organizations

North Shore Elder Services Money Management Program - This program provides trained volunteers to assist senior citizens with their daily financial issues. A senior vice-president serves on the board of directors.

Citizens for Adequate Housing, Peabody. - This is a non-profit organization established to provide affordable housing in Peabody for low and moderate-income residents. An Assistant Treasurer/Branch Manager serves on the board of directors.

"Savings Makes Cents " Program - Two bank employees presented the Savings Makes Cents program to the fifth grade students at the Bentley School located in Salem. This school-banking program was conceived and is managed by the Massachusetts State Treasurer's office and provides real life banking experience to

elementary school students. Salem Five began participating in this program in the Spring of 1998.

Accord Food Pantry - This organization provides food for needy families and the elderly. An Assistant Treasurer and Branch Manager holds the Treasurer position of this organization.

Peabody Citizens for Adequate Housing - This organization plays a major role in providing affordable and low-income housing for people in need within the bank's market area. An Assistant Treasurer and Branch Manager holds the Director position for this organization.

Danvers Housing Assistance Trust - This organization provides education, zero and low interest rate loans and grants to low and moderate-income individuals purchasing or renovating property in Danvers. A Senior Loan Officer sits on the Board of Directors of this organization.

Massachusetts Bank Reporting Project - The bank participates in this statewide program which enlists the aid of banks in preventing financial exploitation of the elderly. Educational brochures are available in the branch lobbies. Any transaction in which a bank employee suspects that an elderly customer may be at risk of such exploitation is reported to the bank security officer.

Donation of Meeting Space - The bank has on a regular basis donated the usage of its training/conference rooms for use by local community and non-profit organizations which include: Destination Salem, Salem Partnership, Salem Chamber of Commerce, Salem High School, State Pilot Rate Review, Salem Tourism and Salem YMCA.

The community development service activities and the delivery of retail services throughout the assessment area reflect an adequate level of credit and responsiveness by Salem Five Cents Savings Bank.

APPENDIX A

SCOPE OF EXAMINATION

Salem Five Cents Savings Bank has one designated assessment area. All of the 26 communities, with the exception of the Town of Boxford, are located in the Boston MA-NH Metropolitan Statistical Area (MSA). Boxford is located in the Lawrence MA-NH MSA.

The institution's CRA performance was reviewed using the large bank examination procedures. The time period covered in this examination was January 1, 2000 through June 30, 2001 for HMDA reportable and small business lending. Community Development lending activities were evaluated through the examination date August 17, 2001.

All loans recorded on the bank's 2000 and year-to-date 2001 HMDA LAR were included in the evaluation of the bank's lending performance. In addition, all loans on the 2000 and year-to-date 2001 Small Business Loan Register were included in the evaluation of the bank's lending performance. A review of the bank's community development lending, investment and service activities were also evaluated from available reports and registers.

Internal analysis generated by management was reviewed during the examination, as was comparative data for the assessment area obtained from PCI, CRA WIZ, and other aggregate data sources. The examination also included a review of the bank's public file, which contained no negative CRA related comments.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

Salem Five Cents Savings Bank

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **AUGUST 17, 2001**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.

